

Message Text

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43

ACTION XMB-04

INFO OCT-01 EUR-12 ISO-00 EB-07 COME-00 TRSE-00 OPIC-06

AID-05 PA-02 PRS-01 USIA-15 CIAE-00 INR-07 NSAE-00

L-02 /062 W

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P 231457Z MAY 75

FM AMEMBASSY REYKJAVIK

TO SECSTATE WASHDC PRIORITY 5358

UNCLAS REYKJAVIK 0566

PASS EXIMBANK

E.O. 11652: N/A

TAGS: EGEN IC US

SUBJECT: ICELAND GOVERNMENT GUARANTEES FLUGLEIDIR AIRPLANE LOAN

REF: STATE 120527, REYKJAVIK 524

1. GOI PARLIAMENT APPROVED MINFIN GUARANTEE FOR EXIM CREDIT TO FLUFLEIDIR ON MAY 15.

2. FOLLOWING ARTICLE APPEARED IN MORGUNBLADID, MAY 10 (NO PAPERS PUBLISHED MAY 9):

"GOVT HAS INTRODUCED BILL IN ALTHING (PARLIAMENT) TO AUTHORIZE GOVT GUARANTEE OF 2,793.5 MILLION KRONUR (ABOUT \$18.5 MILLION US AT CURRENT EXCHANGE RATE OF \$1 EQUALS 151.20 KRONUR) FOR FLUGLEIDIR H.F. BILL PROPOSES THAT THE GOVERNMENT BE AUTHORIZED TO GRANT THIS LOAN WITH SECURITY DEEMED NECESSARY AND ON CONDITIONS SET BY GOVERNMENT, FOR EXAMPLE INCREASED SHARE CAPITAL AND CONTROL OF THE COMPANY'S FINANCIAL DECISIONS.

"BILL PROPOSES THAT GOVT GUARANTEE BE GRANTED FOR PURCHASE OF TWO DC-8 JETS, WHICH LOFTLEIDIR HAS BEEN LEASING SINCE 1970, IN ORDER TO IMPROVE THE COMPANY'S OPERATION FINANCES.

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"DIRECTORS OF FLUGLEIDIR APPROACHED GOVT LAST OCTOBER AND ANNOUNCED

INTENTION TO BUY TWO DC-63 CF (SIC) PLANES, WHICH LOFTLEIDIR HAS BEEN LEASING SINCE 1970 UNDER A LEASE/PURCHASE AGREEMENT WITH SEABOARD WORLD AIRLINES IN NEW YORK. DIRECTOGS ALSO EXPLAINED COMPANY'S FINANCIAL DIFFICULTIES AS REPORTED IN REMARKS REGARDING THE BILL. FLUGLEIDIR THEN FORMALLY REQUESTED GOVT GUARANTEE FOR THESE PURCHASES IN LETTERS DATED FEB. 5 AND APRIL 16.

"IN REMARKS ACCOMPANYING GOVT BILL IT SAYS ALSO:

"THE LEASE/PURCHASE CONTRACT PREVIOUSLY MENTIONED EXPIRES MIDYEAR. WHEN THE CONTRACT WAS DRAWN UP THE VALUE OF BOTH PLANES WAS 21 MILLION US DOLLARS. ABOUT A THIRD OF THIS HAS NOW BEEN PAID, SO THE BUYING PRICE FOR BOTH PLANES IS NOW 13.5 MILLION US DOLLARS. FOR PURCHASING THESE PLANES THE COMPANY PLANS TO GET LOANS FROM EXIMBANK AND COMMERCIAL BANKS IN THE U.S.

"THE GOVT TOOK FLUGLEIDIR'S REQUEST INTO CONSIDERATION AND HAD GOVT FINANCIAL EXPERTS INVESTIGATE FINANCIAL POSITION AND OTHER OPERATIONAL ASPECTS IN CONNECTION WITH THIS. THE EXPERTS REPORTED LAST FEBRUARY. MAIN CONCLUSION WAS THAT GOVT ASSISTANCE IN SUPPLYING OPERATIONAL CAPITAL COULD NOT BE SEPARATED FROM THE FORESEEABLE AND NECESSARY PURCHASE OF PLANES THIS YEAR. BY NOT AVAILING ITSELF OF THE BUYING RIGHT TO THE PLANES, THE COMPANY WOULD FORFEIT POSSIBILITY OF INCREASING OWN CAPITAL IN FORM OF RENT ALREADY PAID. GOVT EXPERTS SUGGESTED THAT FLUGLEIDIR BE ENABLED TO UTILIZE THE BUYING RIGHT. ESTIMATED MARKET PRICE OF PLANES TODAY IS US \$22 MILLION, BUT THE BUYING RIGHT PRICE IS \$13.5 MILLION. DIFFERENCE EQUALS AN INCREASE OF OWN CAPITAL FOR FLUGLEIDIR, AND ALSO GIVES THE NATIONAL TREASURY MORE SECURITY BEHIND THE GUARANTEE THAT MIGHT BE GRANTED TO THE COMPANY.

"IN SPITE OF REVIEWED OPERATIONAL PLANS FOR 1975 TO CUT DOWN EXPENSES, DIRECTORS OF FLUGLEIDIR ESTIMATED IN LATTER PART OF 1974 THAT TO SECURE THE OPERATIONS OF THE COMPANY DURING THE WINTER MONTHS AND DURING 1975, THE COMPANY WOULD NEED, BESIDES SEASONAL LOANS (SIC), A FIVE-YEAR LOAN FOR US \$5 MILLION. GOVT BELIEVES THIS TO BE REALISTIC ESTIMATE OF COMPANY'S NEEDS FOR OPERATION CAPITAL. BILL THEREFORE PROPOSES THAT THE NATIONAL TREASURY BE AUTHORIZED TO GRANT A GUARANTEE FOR OPERATION LOAN FOR US \$5 MILLION."

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3. EMBASSY PERCEIVES NO POLITICAL OR OTHER OBJECTION TO TRANSACTION, BUT IF FOR SOME REASON EXIM CREDIT DOES NOT GO THROUGH, EMBASSY REQUESTS ADVANCE NOTICE.
IRVING

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Message Attributes

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Draft Date: 23 MAY 1975
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Decaption Note:
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Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
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Disposition Remarks:
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Document Unique ID: 00
Drafter: n/a
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